

Karoo Hoogland Municipality
Notes to the Financial Statements for the year ended 30 June 2014

	2014 R	2013 R
37.3 Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	1 140 295	
Fruitless and wasteful expenditure current year		1 140 295
Written off by council	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting further action	<u>1 140 295</u>	<u>1 140 295</u>

Incident	Disciplinary steps / criminal proceedings
Legal costs and other expenditure incurred in lost legal cases.	None

37.4 Irregular expenditure

Reconciliation of irregular expenditure:		
Opening balance	-	-
Irregular expenditure current year	-	-
Expenditure incurred without obtaining 3 quotes	243 758	
Awards made without obtaining tax clearance certificates		
Condoned or written off by Council	-	-
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting approval	<u>243 758</u>	<u>-</u>

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

37.5 Material losses

Electricity distribution losses

- Units purchased (Kwh)	6 160 162	6 102 190
- Units lost during distribution (Kwh)	1 057 303	1 068 828
- Percentage lost during distribution	17.16%	17.52%

Water distribution losses

- Kilo litres disinfected/purified/purchased	-	-
- Kilo litres lost during distribution	-	-
- Percentage lost during distribution	-	-

Own consumption is allocated to departments but do not form part of revenue.
Bulk water metres will be installed at boreholes to determine water distribution losses in future.

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38 Additional disclosures in terms of the Municipal Finance Act		
38.1 Contributions to local organised government - [MFMA 125(1)(b)] - SALGA Contributions		
Opening balance	700 000	300 000
Council subscriptions	500 000	400 000
Amount paid - current year	25 000	
Balance unpaid (included in creditors)	<u>1 175 000</u>	<u>700 000</u>
38.2 Audit fees - [MFMA 125(1)(b)]		
Opening balance	1 384 615	1 644 140
Current year audit fee		
External audit - Auditor General Audit Committee	<div style="border: 1px solid black; width: 100px; height: 20px; margin: 0 auto;">-</div>	<div style="border: 1px solid black; width: 100px; height: 20px; margin: 0 auto;">-</div>
Amount paid - current year	1 000 952	259 525
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	<u>383 663</u>	<u>1 384 615</u>
38.3 VAT - [MFMA 125(1)(b)]		
Opening balance	676 923	216 669
Amounts received - current year	1 635 179	1 635 179
Amounts paid - current year	(1 174 925)	(1 174 925)
Amounts received - previous years		
Amounts claimed - current year		
Closing balance - (Payable)/Receivable	<u>1 137 177</u>	<u>676 923</u>
Vat in suspense due to cash basis of accounting		
Input vat	1 614 241	1 444 789
Output vat	(817 750)	(767 865)
Claimable	<u>796 491</u>	<u>676 923</u>
Vat is payable/receivable on the cash basis. Vat is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.		
38.4 PAYE, SDL and UIF - [MFMA 125(1)(b)]		
Opening balance	-	-
Current year payroll deductions and Council Contributions	3 327 768	3 362 415
Amount paid - current year	3 327 768	3 362 415
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>

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38.5 Pensions and Medical Aid Deductions - [MFMA 125(1)(b)]		
Opening balance	-	-
Current year payroll deductions and Council Contributions	594 468	527 753
Amount paid - current year	594 468	527 753
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>

38.6 Councillor's arrear consumer accounts - [MFMA 125(1)(b)]	Outstanding more than 90 days	Outstanding more than 90 days
The following councillors had arrear accounts for more than 90 days as at 30 June:		
R L Davids		4 406
JS Beukes	2 569	
E Vermeulen		7 160
Total Councillor Arrear Consumer Accounts	<u>2 569</u>	<u>11 566</u>

38.7 Regulation 36(2) - Details of deviations approved by the Accounting Officer in terms of Regulation (36)(1)(a) & (b)

	Single Supplier R	Sec 35 R	Emergency R	Total R
Jul-11				
Aug-11				
Sep-11				
Okt-11				
Nov-11				
Des-11				
Jan-12				
Feb-12				
Mar-12				
Apr-12				
Mei-12				
Jun-12				

38.8 No declaration by suppliers as required in Section 13(c) of the Supply Chain Management Regulations

The contract values of suppliers who did not indicate on the registration forms that members are in service of the state in the previous twelve months are as follows:

R 30 000 - R 199 999
Greater than R 200 000

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2014	2013
R	R

38.9 Budget: Non Compliance with Sec 29 and Sec 71

No unforeseen and unavoidable expenditure was incurred.

39 Capital Commitments

Commitments in respect of capital expenditure

Approved and contracted for:

Infrastructure

Intangible assets

12 098 528 -

12 098 528

The expenditure will be financed from:

Government Grants

12 098 528 -

40 Retirement Benefit Information

The Cape Joint Pension Fund is a multi- employer plan. This means that there are multiple local authorities that participate in the fund. In terms of GRAP 25, multi-employer plans are defined benefit plans. GRAP 25 also states that when sufficient is not available to apply defined benefit accounting for a multi-employer plan, an entity will account for the plan as a defined contribution plan.

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Fund's assets from the Fund administrator. The Fund administrator confirmed that the assets of the Fund are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liability, the Municipality requested pensioner data from the Fund administrator. The Fund administrator claims that the pensioner data is confidential and was not willing to share the information with the Municipality. Therefore the Municipality was unable to calculate a reliable estimate of the accrued liability.

Cape Joint Pension Fund

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2012 revealed that the Fund is in sound financial position.

Defined Contribution Funds

Council contribute SALA Pension Fund and SAMWU National Provident Fund which are defined contribution funds. Current contributions by Council are charged against expenditure on the basis of current service cost.

41 Financial Risk Management

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign exchange currency risk

The Municipality does not engage in foreign currency transactions.

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(b) Price risk

The municipality is not exposed to price risk.

(c) Interest rate risk

As the municipality has significant interest bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The Municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority interest bearing liabilities.

The Municipality did not hedge against any interest rate risk during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follows:

1% (2012 - 1%) Increase in interest rate

0.50% (2012 - 0.50%) Decrease in interest rate

2014
R

2013
R

(d) Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debt. Trade debtors comprise of a large number of ratepayers dispersed across different sectors and geographical areas. On-going credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due to the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply.

All rates and services are payable within 30 days from invoice date. Refer to notes 18 and 19 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

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2014
R **2013**
R

No Receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 18 and 19 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rates plus 1 where applicable.

	2014	2014	2013	2013
	%	R	%	R
The provision for bad debts could be allocated between the different classes of debtors as follows:				
<u>Non exchange receivables</u>				
Rates	10.00	1 177 370	10.00	1 047 661
<u>Exchange receivables</u>				
Service charges	90.00	10 596 332	90.00	9 428 950
		11 773 702		10 476 612

Bad debts written off per debtor class:

<u>Exchange receivables</u>			
Service charges		(30 562)	(13 680)

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposures are disclosed below.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectations of counter party default.

Long term receivables, Receivables from exchange transactions and Receivables from non-exchange transactions are individually evaluated annually at year end for impairment.